

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Southern Cal Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2005 election)		
Charles Loeck	President	2006
Jim Brown	Vice President	2007
Linda Iler	Board Member	2005
Eric Richardson	Board Member	2006
Tommy Campbell	Board Member	2007
Board of Education		
(After September 2005 election)		
Eric Richardson	President	2006
Jim Brown	Vice President	2007
Mark Schleisman	Board Member	2008
Tommy Campbell	Board Member	2007
Charles Loeck	Board Member	2006
School Officials		
Dwayne Cross	Superintendent (Resigned)	2006
Dale Black	Superintendent (Interim)	2006
Susan Lasher	District Secretary/ District Treasurer	2006
Brian Gruhn	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Southern Cal Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Southern Cal Community School District, Lake City, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Southern Cal Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

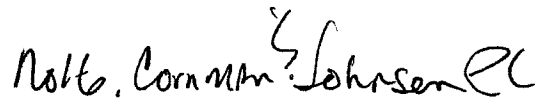
In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2006 on our consideration of Southern Cal Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Member American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southern Cal Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

October 4, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Southern Cal Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,322,582 in fiscal 2005 to \$4,334,702 in fiscal 2006, while General Fund expenditures increased from \$4,410,713 in fiscal 2005 to \$4,585,375 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$1,045,184 in fiscal 2005 to a balance of \$796,074 in fiscal 2006, a 23.8% decrease from the prior year.
- The increase in General Fund revenues was attributable to increases in other revenues such as unrestricted interest earnings and student fees charged in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Southern Cal Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Southern Cal Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Southern Cal Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

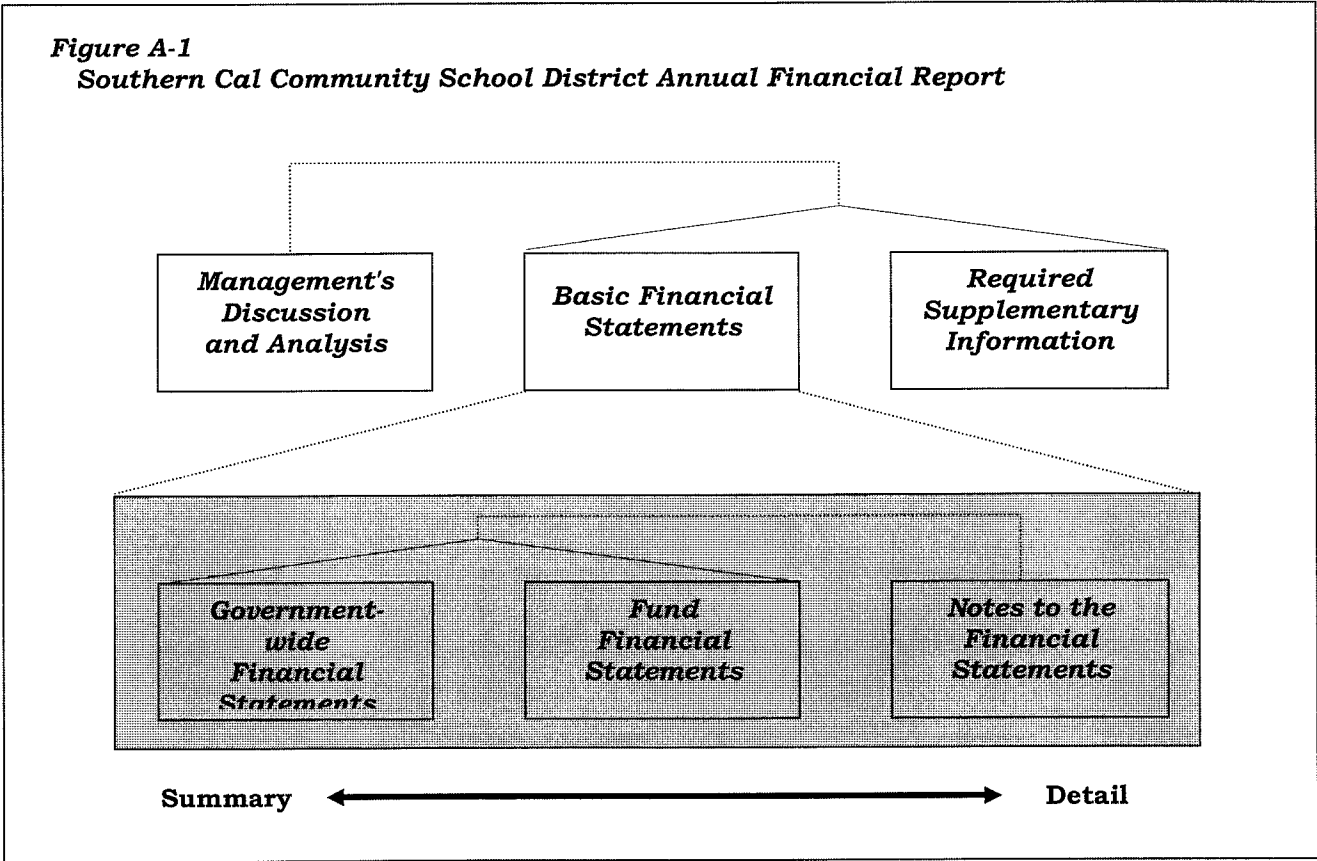


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the

District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Capital Projects Fund and Special Revenue Funds.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 and 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change 2005-06
	2006	2005	2006	2005	2006	2005	
Current and other assets	\$ 3,407,392	3,514,416	10,953	6,528	3,418,345	3,520,944	-2.91%
Capital assets	2,379,214	2,177,042	3,922	4,836	2,383,136	2,181,878	9.22%
Total assets	5,786,606	5,691,458	14,875	11,364	5,801,481	5,702,822	1.73%
Long-term obligations	42,773	24,314	0	0	42,773	24,314	75.92%
Other liabilities	2,216,043	2,230,681	2,993	7,565	2,219,036	2,238,246	-0.86%
Total liabilities	2,258,816	2,254,995	2,993	7,565	2,261,809	2,262,560	-0.03%
Net assets:							
Invested in capital assets, net of related debt	2,379,214	2,177,042	3,922	4,836	2,383,136	2,181,878	9.22%
Restricted	370,430	226,051	0	0	370,430	226,051	63.87%
Unrestricted	778,146	1,033,370	7,880	(1,037)	786,026	1,032,333	-23.86%
Total net assets	\$ 3,527,790	3,436,463	11,802	3,799	3,539,592	3,440,262	2.89%

The District's combined net assets increased by 2.89%, or \$99,330, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$144,379, or 63.87% over the prior year. The increase was primarily a result of the increases in the Physical Plant and Equipment and Activity Funds balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$246,307, or 23.86%. This decrease in unrestricted net assets was primarily the result of the decrease in the General fund balance.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 281,501	330,426	149,877	140,284	431,378	470,710	-8.36%
Operating grants and contributions and restricted interest	601,523	593,884	103,424	107,179	704,947	701,063	0.55%
General revenues:							
Property tax	1,657,137	1,623,892	0	0	1,657,137	1,623,892	2.05%
Local option sales and services tax	260,860	242,484	0	0	260,860	242,484	7.58%
Unrestricted state grants	1,963,282	1,952,341	0	0	1,963,282	1,952,341	0.56%
Other	163,324	26,987	0	0	163,324	26,987	505.20%
Total revenues	4,927,627	4,770,014	253,301	247,463	5,180,928	5,017,477	3.26%
Program expenses:							
Governmental activities:							
Instructional	3,061,349	3,057,915	0	0	3,061,349	3,057,915	0.11%
Support services	1,438,681	1,512,199	0	0	1,438,681	1,512,199	-4.86%
Non-instructional programs	0	5,315	245,298	255,019	245,298	260,334	-5.78%
Other expenses	336,270	264,514	0	0	336,270	264,514	27.13%
Total expenses	4,836,300	4,839,943	245,298	255,019	5,081,598	5,094,962	-0.26%
Changes in net assets	91,327	(69,929)	8,003	(7,556)	99,330	(77,485)	228.19%
Beginning net assets	3,436,463	3,506,392	3,799	11,355	3,440,262	3,517,747	-2.20%
Ending net assets	\$ 3,527,790	3,436,463	11,802	3,799	3,539,592	3,440,262	2.89%

In fiscal 2006, property tax and unrestricted state grants account for 73.47% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for all of the revenue from business type activities.

The District's total revenues were approximately \$5.2 million of which \$4.9 million was for governmental activities and less than \$0.3 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.26% increase in revenues and a 0.26% decrease in expenses. The decrease in expenses related to the District matching expenses to available revenues.

Governmental Activities

Revenues for governmental activities were \$4,927,627 and expenses were \$4,836,300.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,061,349	2,356,225
Support services	1,438,681	1,436,520
Other expenses	336,270	160,531
Totals	<u>\$ 4,836,300</u>	<u>3,953,276</u>

- The cost financed by users of the District's programs was \$281,501.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$601,523.
- The net cost of governmental activities was financed with \$1,657,137 in property tax, \$1,963,282 in unrestricted state grants, \$260,860 in local option sales and service tax, and \$51,545 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$255,301 and expenses were \$245,298. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Southern Cal Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,191,349, below last year's ending fund balances of a \$1,283,735. However, the primary reason for the decrease in combined fund balances in fiscal 2006 is due to the increased negotiated salaries and benefits.

Governmental Fund Highlights

- The District's General Fund financial position changed from \$1,045,184 to \$796,074. Although revenues increased as compared to fiscal 2005, the increase in revenues was not enough to offset the increase in General Fund expenditures. The expenditures increased \$174,662 due to an increase in negotiated salary and benefits, as well as existing expenditure commitments of the District.
- Since the District transfers all monies received by the Capital Projects Fund into the Physical Plant and Equipment Levy Fund (PPEL), the Capital Projects Fund has a balance of \$0. Expenditures exceeded revenues in the PPEL Fund by \$172,429. Sale of assets relevant to the PPEL Fund as well as the transfer of local option sales and service tax monies to PPEL guaranteed that the fund would increase in fund balance from \$88,378 in 2005 to \$251,690 in 2006.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$3,799 at June 30, 2005 to \$11,802 at June 30, 2006, representing an increase of 210.66%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$236,569 less than budgeted revenues, a variance of 4.43%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$2.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$149,102.

The original cost of the District's capital assets was \$7,520,785. Governmental funds account for \$7,416,010 with the remainder of \$104,775 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$1,333,178 at June 30, 2005, compared to \$1,511,864 reported at June 30, 2006. This increase resulted from improvements made during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 52,564	52,564	0	0	52,564	52,564	0.00%
Buildings	1,511,864	1,333,178	0	0	1,511,864	1,333,178	11.82%
Land improvements	275,846	297,105	0	0	275,846	297,105	-7.71%
Machinery and equipment	538,940	494,195	3,922	4,836	542,862	499,031	8.07%
Total	\$ 2,379,214	2,177,042	3,922	4,836	2,383,136	2,181,878	8.45%

Long-Term Debt

At June 30, 2006, the District had \$42,773 in other long-term debt outstanding. This represents an increase of 75.9% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding Compensated Absences from the General Fund of \$12,027 at June 30, 2006.

At June 30, 2006, \$30,746 has to be paid from the Special Revenue, Management Fund for early retirement benefits.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
Compensated absences	\$ 12,027	11,814	1.8%
Early Retirement	30,746	12,500	146.0%
Totals	<u>\$ 42,773</u>	<u>24,314</u>	<u>75.9%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding between state revenues and property taxes.
- The District has started to receive local option sales and service tax; with these monies they will be able to fund new projects and take care of necessary expenditures in the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Susan Lasher, District Secretary, Southern Cal Community School District, 709 West Main Street, Lake City, Iowa, 51449.

BASIC FINANCIAL STATEMENTS

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,419,733	6,176	1,425,909
Receivables:			
Property tax:			
Delinquent	29,253	0	29,253
Succeeding year	1,756,360	0	1,756,360
Accounts	1,662	87	1,749
Due from other governments	124,598	0	124,598
Inventories	0	4,690	4,690
Prepaid items	37,812	0	37,812
Capital assets, net of accumulated depreciation (Note 5)	2,379,214	3,922	2,383,136
TOTAL ASSETS	5,748,632	14,875	5,763,507
LIABILITIES			
Accounts payable	37,325	0	37,325
Salaries and benefits payable	376,595	509	377,104
Deferred revenue:			
Succeeding year property tax	1,756,360	0	1,756,360
Other	7,789	2,564	10,353
Long-term liabilities (Note 6):			
Portion due within one year:			
Compensated absences	12,027	0	12,027
Early retirement	30,746	0	30,746
TOTAL LIABILITIES	2,220,842	3,073	2,223,915
NET ASSETS			
Investment in capital assets, net of related debt	2,379,214	3,922	2,383,136
Restricted for:			
Talented and gifted	5,901	0	5,901
Management levy	41,585	0	41,585
Physical plant and equipment levy	251,690	0	251,690
Other special revenue purposes	71,254	0	71,254
Unrestricted	778,146	7,880	786,026
TOTAL NET ASSETS	\$ 3,527,790	11,802	3,539,592

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 2,009,315	110,792	396,140	(1,502,383)	0
Special instruction	522,280	0	29,318	(492,962)	0
Other instruction	529,754	168,874	0	(360,880)	0
	3,061,349	279,666	425,458	(2,356,225)	0
Support services:					
Student services	200,415	0	0	(200,415)	0
Instructional staff services	247,289	0	0	(247,289)	0
Administration services	445,728	0	0	(445,728)	0
Operation and maintenance of plant services	277,087	0	0	(277,087)	0
Transportation services	268,162	1,835	326	(266,001)	0
	1,438,681	1,835	326	(1,436,520)	0
Other expenditures:					
Facilities acquisition	80,870	0	0	(80,870)	0
AEA flowthrough	175,739	0	175,739	0	0
Depreciation(unallocated)*	79,661	0	0	(79,661)	0
	336,270	0	175,739	(160,531)	0
Total governmental activities	4,836,300	281,501	601,523	(3,953,276)	0
Business-Type activities:					
Non-instructional programs:					
Nutrition services	245,298	149,877	103,424	0	8,003
Total business-type activities	245,298	149,877	103,424	0	8,003
Total	\$ 5,081,598	431,378	704,947	(3,953,276)	8,003
General Revenues:					
Property tax levied for:					
General purposes				\$ 1,657,137	0
Local option sales and service tax				260,860	0
Unrestricted state grants				1,963,282	0
Unrestricted investment earnings				51,545	0
Gain on sale of equipment				1,563	0
Gain on sale of real property				74,881	0
Other				35,335	0
Total general revenues				4,044,603	0
Changes in net assets				91,327	8,003
Net assets beginning of year				3,436,463	3,799
Net assets end of year				\$ 3,527,790	11,802

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 1,119,696	157,792	0	142,245	1,419,733
Receivables:					
Property tax:					
Delinquent	27,913	0	0	1,340	29,253
Succeeding year	1,656,360	0	0	100,000	1,756,360
Interfund	0	100,747	0	0	100,747
Accounts	1,662	0	0	0	1,662
Due from other governments	23,851	0	100,747	0	124,598
Prepaid items	37,812	0	0	0	37,812
TOTAL ASSETS	\$ 2,867,294	258,539	100,747	243,585	3,470,165
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund payable	\$ 0	0	100,747	0	100,747
Accounts payable	30,476	6,849	0	0	37,325
Salaries and benefits payable	376,595	0	0	0	376,595
Deferred revenue:					
Succeeding year property tax	1,656,360	0	0	100,000	1,756,360
Other	7,789	0	0	0	7,789
Total liabilities	2,071,220	6,849	100,747	100,000	2,278,816
Fund balances:					
Reserved for:					
Talented and gifted	5,901	0	0	0	5,901
Unreserved:					
General	790,173	0	0	0	790,173
Physical plant and equipment levy	0	251,690	0	0	251,690
Management levy	0	0	0	72,331	72,331
Other special revenue purposes	0	0	0	71,254	71,254
Total fund balances	796,074	251,690	0	143,585	1,191,349
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,867,294	258,539	100,747	243,585	3,470,165

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15) \$ 1,191,349

*Amounts reported for governmental activities in the
statement of net assets are different because:*

Capital assets used in governmental activities are not
financial resources and, therefore, are not report as
assets in in the governmental funds. 2,379,214

Long-term liabilities, including compensated absences and
early retirement, are not due and payable in the current
period and, therefore, are not reported as liabilities in
the governmental funds. (42,773)

Net assets of governmental activites (page 13) \$ 3,527,790

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,581,214	0	260,860	75,923	1,917,997
Tuition	98,028	0	0	0	98,028
Other	91,293	1,422	0	178,217	270,932
State sources	2,397,451	0	0	59	2,397,510
Federal sources	166,716	0	0	0	166,716
Total revenues	4,334,702	1,422	260,860	254,199	4,851,183
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	2,071,921	846	0	36,638	2,109,405
Special instruction	522,280	0	0	0	522,280
Other instruction	365,154	0	0	164,600	529,754
	2,959,355	846	0	201,238	3,161,439
Support services:					
Student services	187,915	0	0	0	187,915
Instructional staff services	181,997	65,292	0	0	247,289
Administration services	412,128	5,300	0	21,541	438,969
Operation and maintenance of plant services	457,224	21,543	0	28,265	507,032
Transportation services	211,017	0	0	9,743	220,760
	1,450,281	92,135	0	59,549	1,601,965
Other expenditures:					
Facilities acquisition	0	80,870	0	0	80,870
AEA flowthrough	175,739	0	0	0	175,739
	175,739	80,870	0	0	256,609
Total expenditures	4,585,375	173,851	0	260,787	5,020,013
Excess(deficiency) of revenues over (under) expenditures	(250,673)	(172,429)	260,860	(6,588)	(168,830)
Other financing sources(uses):					
Transfers in	0	260,860	0	0	260,860
Transfers out	0	0	(260,860)	0	(260,860)
Sale of real property	0	74,881	0	0	74,881
Sale of equipment	1,563	0	0	0	1,563
Total other financing sources(uses)	1,563	335,741	(260,860)	0	76,444
Net change in fund balances	(249,110)	163,312	0	(6,588)	(92,386)
Fund balance beginning of year	1,045,184	88,378	0	150,173	1,283,735
Fund balance end of year	\$ 796,074	251,690	0	143,585	1,191,349

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds(page 17) \$ (92,386)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Amounts for capital outlay expenditures and depreciation expense are as follows:

Capital outlay expenditures	\$ 350,360	
Depreciation expense	<u>(148,188)</u>	202,172

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	\$ (213)	
Early Retirement	<u>(18,246)</u>	<u>(18,459)</u>

Changes in net assets of governmental activities(page 14) \$ 91,327

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 6,176
Accounts receivable	87
Inventories	4,690
Capital assets, net of accumulated depreciation(Note 5)	3,922
TOTAL ASSETS	<u>14,875</u>
LIABILITIES	
Salary and benefits payable	509
Deferred revenues	
Other	2,564
TOTAL LIABILITES	<u>3,073</u>
NET ASSETS	
Investment in capital assets	3,922
Unrestricted	7,880
TOTAL NET ASSETS	<u>\$ 11,802</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	<u>\$ 149,877</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	86,468
Benefits	26,016
Services	653
Supplies	131,247
Depreciation	914
TOTAL OPERATING EXPENSES	<u>245,298</u>
OPERATING LOSS	<u>(95,421)</u>
NON-OPERATING REVENUES:	
State sources	3,047
Federal sources	100,377
TOTAL NON-OPERATING REVENUES	<u>103,424</u>
Change in net assets	8,003
Net assets beginning of year	<u>3,799</u>
Net assets end of year	<u><u>\$ 11,802</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 150,491
Cash payments to employees for services	(112,202)
Cash payments to suppliers for goods or services	(118,411)
Net cash used in operating activities	<u>(80,122)</u>
Cash flows from non-capital financing activities:	
State grants received	3,047
Federal grants received	88,325
Net cash provided by non-capital financing activities	<u>91,372</u>
Net increase in cash and cash equivalents	11,250
Cash and cash equivalents at beginning of year	<u>(5,074)</u>
Cash and cash equivalents at end of year	<u>\$ 6,176</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (95,421)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	12,052
Depreciation	914
Decrease in inventories	1,437
Decrease in accounts receivable	314
Increase in salaries and benefits payable	282
Increase in deferred revenue	300
Net cash used in operating activities	<u>\$ (80,122)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 6,176</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$12,052.

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Southern Cal Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Lake City and Lohrville, Iowa, and the predominate agricultural territory in Calhoun, Sac, Greene and Carroll Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Southern Cal Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Southern Cal Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Calhoun, Sac, Greene and Carroll Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Special Revenue - Physical Plant and Equipment Levy(PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for

enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for extra duties and curriculum work for the current school year, which is paid in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has

been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified portfolio	<u>\$ 958,459</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables for the year ended June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue, Physical Plant and Equipment Levy	Capital Projects	<u>\$ 100,747</u>

(4) Interfund Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Special Revenue, Physical Plant and Equipment Levy	Capital Projects	<u>\$ 260,860</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 52,564	0	0	52,564
Total capital assets not being depreciated	<u>52,564</u>	<u>0</u>	<u>0</u>	<u>52,564</u>
Capital assets being depreciated:				
Buildings	3,569,301	235,130	0	3,804,431
Land improvements	611,518	1,958	0	613,476
Machinery and equipment	2,832,267	113,272	0	2,945,539
Total capital assets being depreciated	<u>7,013,086</u>	<u>350,360</u>	<u>0</u>	<u>7,363,446</u>
Less accumulated depreciation for:				
Buildings	2,236,123	56,444	0	2,292,567
Land improvements	314,413	23,217	0	337,630
Machinery and equipment	2,338,072	68,527	0	2,406,599
Total accumulated depreciation	<u>4,888,608</u>	<u>148,188</u>	<u>0</u>	<u>5,036,796</u>
Total capital assets being depreciated, net	<u>2,124,478</u>	<u>202,172</u>	<u>0</u>	<u>2,326,650</u>
Governmental activities capital assets, net	<u>\$ 2,177,042</u>	<u>202,172</u>	<u>0</u>	<u>2,379,214</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 104,775	0	0	104,775
Less accumulated depreciation	99,939	914	0	100,853
Business-type activities capital assets, net	<u>\$ 4,836</u>	<u>(914)</u>	<u>0</u>	<u>3,922</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 13,182
Other	0
Support services:	
Student	0
Instructional staff	0
Administration	6,662
Operation and maintenance of plant	1,304
Transportation	47,379
	<u>68,527</u>
Unallocated depreciation	<u>79,661</u>
Total governmental activities depreciation expense	<u>\$ 148,188</u>
Business-type activities:	
Food services	<u>\$ 914</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Compensated Absences	\$ 11,814	12,027	11,814	12,027	12,027
Early retirement	12,500	34,056	15,810	30,746	30,746
Total	<u>\$ 24,314</u>	<u>46,083</u>	<u>27,624</u>	<u>42,773</u>	<u>42,773</u>

Early Retirement

The District offers a voluntary early retirement plan to any full-time District employee who is working at least thirty hours per week and currently performing their assigned duties within the school district, has been with the District for twenty or more years, and who on or before June 30 of the retirement year is between the ages of fifty-five and sixty-six. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible certified employee is \$12,500. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement. Early retirement expenditures for the year ended June 30, 2006 totaled \$15,810.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005, 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$147,738, \$152,520 and \$147,184 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental and long-term disability. District contributions to ISEBA for the year ended June 30, 2006 were \$577,451.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$175,739 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary		Budgeted Amounts		Final to
	Fund Types	Fund Type	Total	Original	Final	Actual
	Actual	Actual	Actual			Variance
Revenues:						
Local sources	\$ 2,286,957	149,877	2,436,834	2,322,214	2,322,214	114,620
State sources	2,397,510	3,047	2,400,557	2,724,339	2,724,339	(323,782)
Federal sources	166,716	100,377	267,093	281,000	281,000	(13,907)
Total revenues	4,851,183	253,301	5,104,484	5,341,053	5,341,053	(236,569)
Expenditures:						
Instruction	3,161,439	0	3,161,439	3,603,000	3,603,000	441,561
Support services	1,601,965	0	1,601,965	2,163,000	2,163,000	561,035
Non-instructional programs	0	245,486	245,486	259,100	280,000	34,514
Other expenditures	256,609	0	256,609	300,744	300,744	44,135
Total expenditures	5,020,013	245,486	5,265,499	6,325,844	6,346,744	1,081,245
Excess(deficiency) of revenues over(under) expenditures	(168,830)	7,815	(161,015)	(984,791)	(1,005,691)	844,676
Other financing sources, net	76,444	0	76,444	0	0	76,444
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(92,386)	7,815	(84,571)	(984,791)	(1,005,691)	921,120
Balance beginning of year	1,283,735	3,799	1,287,534	1,219,861	1,219,861	67,673
Balance end of year	\$ 1,191,349	11,614	1,202,963	235,070	214,170	988,793

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$20,900.

OTHER SUPPLEMENTARY INFORMATION

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2006

	Manage- ment Levy	Student Activity	Expend- able Trust	Total
ASSETS				
Cash and pooled investments	\$ 70,991	70,754	500	142,245
Receivables:				
Property tax:				
Current year delinquent	1,340	0	0	1,340
Succeeding year	100,000	0	0	100,000
TOTAL ASSETS	\$ 172,331	70,754	500	243,585
LIABILITIES AND FUND BALANCES				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	100,000	0	0	100,000
Total liabilities	100,000	0	0	100,000
Unreserved fund balances	72,331	70,754	500	143,585
TOTAL LIABILITIES AND FUND BALANCES	\$ 172,331	70,754	500	243,585

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2006

	Manage- ment Levy	Student Activity	Expend- able Trust	Total
REVENUES:				
Local sources:				
Local tax	\$ 75,923	0	0	75,923
Other	5,443	172,272	502	178,217
State sources	59	0	0	59
TOTAL REVENUES	81,425	172,272	502	254,199
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	34,997	0	1,641	36,638
Other instruction	0	164,600	0	164,600
Support services:				
Administration services	21,541	0	0	21,541
Operation and maintenance of plant services	28,265	0	0	28,265
Student transportation	9,743	0	0	9,743
TOTAL EXPENDITURES	94,546	164,600	1,641	260,787
Excess(deficiency) of revenues over(under) expenditures	(13,121)	7,672	(1,139)	(6,588)
Fund balance beginning of year	85,452	63,082	1,639	150,173
Fund balance end of year	\$ 72,331	70,754	500	143,585

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Activities:				
Academic Competitions	\$ 637	0	637	0
Activity Tickets	0	8,415	7,586	829
Athletic Awards	35	636	671	0
Baseball	0	163	163	0
Softball	0	2,414	2,414	0
Basketball	5,230	12,870	14,844	3,256
Cross Country	1,606	2,409	2,498	1,517
Drama	245	1,178	1,423	0
Football	3,742	10,875	10,654	3,963
Golf	564	1,269	1,025	808
Memorial Scoreboard	194	2,976	3,170	0
Music	179	5,974	6,153	0
Music Awards	0	1,057	1,057	0
Football Camp	3,022	4,879	7,166	735
Girls Basketball Camp	165	2,091	1,262	994
Boys Basketball Camp	1,809	5,697	5,230	2,276
Track Resurfacing	13,770	2,813	0	16,583
Track	0	8,822	8,083	739
Volleyball	300	2,079	2,104	275
Wrestling	0	1,952	1,952	0
State Athletic Competitions	1,536	591	0	2,127
	33,034	79,160	78,092	34,102
Classes:				
Elementary	706	360	292	774
Class of 2006	3,118	1,034	4,152	0
Class of 2007	958	4,504	2,045	3,417
Class of 2008	234	890	65	1,059
Class of 2009	710	3,750	1,596	2,864
Class Feld	0	37	37	0
	5,726	10,575	8,187	8,114
Clubs/Organizations:				
Assoc. Foreign Students	129	0	0	129
FB & BB Cheerleaders	399	2,718	2,946	171
Wrestling Cheerleaders	770	317	406	681
Dance Team	2,570	9,151	9,705	2,016
National Honor Society	527	622	500	649
Student Council	1,146	1,387	1,247	1,286
Leadership Activities	426	88	228	286
	5,967	14,283	15,032	5,218

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Miscellaneous Accounts:				
Interest	1,081	2,318	3,399	0
General Athletics	534	1,184	0	1,718
Field Trips	0	1,805	1,805	0
7-12 Projects	2,351	982	575	2,758
Public Relations	0	929	929	0
	<u>3,966</u>	<u>7,218</u>	<u>6,708</u>	<u>4,476</u>
School Projects:				
Annual	540	6,971	7,436	75
4-6 Yearbook	0	889	534	355
7-8 Yearbook	77	296	275	98
Curtain Fund	3,001	0	0	3,001
HS Pop Machines	500	11,290	11,790	0
Elementary Vending	250	1,090	1,090	250
Elementary Student Council	19	40	0	59
Tech Trends	0	1,074	1,074	0
Booster Club	0	1,676	1,676	0
SB Concessions	2,048	1,341	3,389	0
	<u>6,435</u>	<u>24,667</u>	<u>27,264</u>	<u>3,838</u>
Student Resale Items:				
Band Resale	0	806	806	0
Home Ec Resale	0	713	713	0
	<u>0</u>	<u>1,519</u>	<u>1,519</u>	<u>0</u>
Vocational Organizations:				
FFA	6,591	33,895	26,381	14,105
HOSA	1,313	0	412	901
	<u>7,904</u>	<u>33,895</u>	<u>26,793</u>	<u>15,006</u>
Other Accounts:				
Flagpole Fundraiser	50	955	1,005	0
Total	<u>\$ 63,082</u>	<u>172,272</u>	<u>164,600</u>	<u>70,754</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 1,917,997	1,866,376	2,116,535	2,249,552
Tuition	98,028	131,576	93,216	136,305
Other	270,932	225,587	219,367	282,267
Intermediate sources	0	0	11,510	9,197
State sources	2,397,510	2,359,933	2,083,026	2,052,457
Federal sources	166,716	186,292	170,190	138,324
Total	<u>\$ 4,851,183</u>	<u>4,769,764</u>	<u>4,693,844</u>	<u>4,868,102</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,109,405	1,995,247	1,951,514	2,002,382
Special instruction	522,280	507,746	531,786	520,911
Other instruction	529,754	540,921	434,826	415,661
Support services:				
Student services	187,915	214,235	225,416	218,137
Instructional staff services	247,289	180,399	143,133	182,307
Administration services	438,969	436,747	433,748	459,888
Operation and maintenance of plant services	507,032	540,056	544,005	501,005
Transportation services	220,760	259,764	169,776	161,418
Non-instructional programs	0	5,315	5,541	992
Other expenditures:				
Facilities acquisitions	80,870	0	0	0
Long-term debt:				
Principal	0	0	0	18,000
AEA flow-through	175,739	175,873	178,412	189,787
Total	<u>\$ 5,020,013</u>	<u>4,856,303</u>	<u>4,618,157</u>	<u>4,670,488</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Southern Cal Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Southern Cal Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 4, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southern Cal Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06 is a material weakness.

Compliance and Other Matters

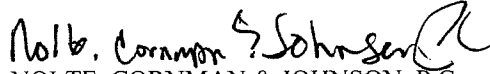
As part of obtaining reasonable assurance about whether Southern Cal Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Southern Cal Community School District and other parties to Southern Cal Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Southern Cal Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

October 4, 2006

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Clothing Purchased for Coaches - We noted during our audit that the District purchased clothing for football camp coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - We will not purchase clothing for coaches

Conclusion - Response accepted.

I-C-06 Student Activity Fund - We noted during the audit that the District was placing Target donations into the Student Activity Fund.

Recommendation - Donations made to a District should be placed in the most appropriate place based upon the donor request. Target donates to schools for materials and supplies. The most logical place to record the revenue and subsequent purchase would be the General Fund. The District should record future donations from Target in the General Fund.

Response - In the future, the District will place Target donations in the General Fund.

Conclusion - Response accepted.

SOUTHERN CAL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, did not exceed the amount budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.